

28 April 2023

Dear Distributor,

Letter to Distributors - Consumer Duty (the “Duty”)

I am writing on behalf of Sapphire Capital Partners LLP (“Sapphire”).

1. Under the FCA’s Consumer Duty, by 30 April 2023 product manufacturers must have completed all the reviews necessary to meet the outcome rules for their existing open products and services so they can share with distributors to meet their obligations under the Duty and identify where changes need to be made. I can confirm this activity has been completed, and no changes have been identified at this point. This letter now shares the information necessary for you - as a distributor - to meet your obligations under the Duty.
2. Sapphire achieves fair value from their products and good customer outcomes by having embedded sound principles of product oversight and governance through the operation of our Risk and Compliance Committee, which is responsible for both the design, delivery, and monitoring of our products where we are a manufacturer or co-manufacturer.
3. Our target markets are defined at an appropriate level based on the nature and complexity of our products. We monitor the performance of our products throughout their lifecycle to ensure they meet our customers’ needs and provide fair value. Our products are subject to an assessment and review to ensure products offer fair value for customers. We review our distribution channels and the remuneration they receive to ensure they are appropriately targeted.
4. Therefore, in relation to the alternative investment fund known as the Fuel Ventures Follow-On EIS Fund.
5. (the “Fund” or the “Product”), please find below a summary of the information required under the Duty, and in the appendix - titled “Information Disclosure to Distributors”.

Outcome 1: Products and services

6. The FCA highlights that all products and services for consumers should be fit for purpose. Products and services should be “...designed to meet the needs, characteristics and objectives of a target group of customers and distributed appropriately”. Therefore, one of the key purposes of this letter is to ensure that you are provided with sufficient information to gain the necessary understanding and knowledge of the Fund in order for the distribution of the Fund to occur in accordance with the needs and characteristics of the target market.
7. The Fund has been manufactured for the purposes of distribution only to clients within the identified target market (“Target Market”) as demonstrated in the below appendix - Duty Outcome One. We have also identified a negative (incompatible) target market for the Product, this has been summarised in the appendix below - Duty Outcome One - under the title “Target Market Analysis” and also detailed in the appendix section titled “Information Disclosure to Distributors”.
8. In determining the Target Market at a sufficiently granular level, we have taken into consideration:
 - a. how the Product fits with the Target Market, particularly with regard to an individual client’s needs and their risk appetite;
 - b. the impact of charges to clients within the Target Market;

- c. our ability to deliver the service under the Fund, with particular regard to the financial strength of investors in the wider context of their investment portfolios;
- d. the efficiency with which we can reliably deal with end clients within the Target Market at the point of sale or subsequently, such as when withdrawal claims are made, or complaints arise;
- e. how the Product deals with the Target Market, particularly with regard to potential customer vulnerabilities, e.g., unstable personal financial position, low/erratic income and low savings, low financial literacy, and life events (job loss, divorce, health emergency, etc.); and
- f. the fair value assessment considering a reasonably foreseeable time horizon which is forward-looking and includes the non-monetary benefits and costs.

Outcome 2: Price and value

9. We seek to ensure that all consumers receive fair value. The FCA highlights that "...value is about more than just price, and we want firms to assess their products and services in the round to ensure there is a reasonable relationship between the price paid for a product or service and the overall benefit a consumer receives from it." Therefore, another of the key purposes of this letter is to ensure that you are provided with sufficient information to gain the information required to ensure retail customers receive fair value in the Target Market.
10. The FCA requires we carry out a value assessment of our Product and we review that assessment on an annual basis appropriate to the nature and duration of the Product. Sapphire has completed the assessment in-line with a reasonably foreseeable period of ten years, as per the expected length of time a retail customer in the Target Market is likely to keep this type of product.
11. We believe the overall charging structure and performance fee of this Product are competitive and in line with equivalent products, as demonstrated in the below appendix - Duty Outcome Two.
12. We also considered non-financial benefits and costs (under PRIN 2A.4.10G) associated with the Product - such as specific sector expertise related to delivering this Fund and any enhanced levels of customer service to provide extra assistance if required.

Outcome 3: Consumer understanding

13. We seek to ensure that all communications both support and enable consumers to make informed decisions about our financial products and services. In compliance with the Duty, we "...want consumers to be given the information they need, at the right time, and presented in a way they can understand."
14. We have considered what additional steps we can undertake to support consumer understanding. For example, supporting videos are being added to our website to provide context and an explanation of key information upfront in a simple way.
15. The Product has also been manufactured with consideration of the characteristics of vulnerabilities when tailoring communications, such as the Information Memorandum and Key Information Document, provided to retail customers.
16. We have also considered any characteristics of vulnerabilities when developing financial promotion communications provided to retail customers and adapted our communications if we identified that vulnerable customers are not experiencing good outcomes.

17. All distributors should closely examine their communications as a whole and ensure they meet expectations under this Duty outcome.

Outcome 4: Consumer support

18. The FCA highlights that firms should provide "...a level of support that meets customers' needs throughout their relationship with the firm." The FCA recognises that there are many different channels distributors can use to provide support to their customers, including telephone, email, in-office, text, written, web chat and video calls. A specific channel of communication that a distributor must use is not prescribed by the FCA.
19. However, you must ensure that the channel of support that you do offer meets the needs of the Fund customers, including customers dealing with non-standard issues and customers with characteristics of vulnerability.
20. At Sapphire, we offer customer support via web chat, written, video calls, telephone (+44(0)2890597213) and email (info@sapphirecapitalpartners.co.uk). We also monitor the support we provide to look for signs that may indicate one of these channels is not sufficient to meet the needs of our customers, and we will seek to take steps to address any shortfall in the support we provide.

Conclusion

21. Sapphire confirms that we have completed the reviews necessary to meet the four Duty outcome rules for our existing open products and services. We also confirm that no changes have been identified (at this point) to be made to existing open products and services. However, should changes be subsequently identified we shall communicate with you in good time so that you can take any necessary action to make the remedies without delay prior to the July 2023 deadline. It is also noted that our Target Market Statements and Fair Value Statements will be updated on our website, [Product Governance and Fair Value - Sapphire Capital](#)
22. If upon your review of this letter and the enclosures provided you require any additional information to ensure compliance with the Duty, please do not hesitate to contact us. It is noted that our Consumer Duty Champion is Bronagh Duggan, and she can be contacted at bronagh@sapphirecapitalpartners.co.uk or on 02890 597213.
23. By distributing this Product, you confirm that you:
 - a. have obtained the necessary understanding and knowledge of the Product in order for the distribution of the Product to occur in accordance with the needs and characteristics of the target market, including vulnerable customers;
 - b. have assessed the compatibility of the Product with the needs of the consumer to whom you intend to distribute the Product, taking into account the identified Target Market, potential customer vulnerabilities, and the restrictions to financial promotions under PS22/10 published August 2022 by the FCA;
 - c. will ensure that the Product is distributed only when it is in the best interests of the customer, is unlikely to cause foreseeable harm, and will not distribute the Product to a client if they are unlikely to understand it sufficiently or if it is likely to be incompatible with their financial objectives or investment goals;
 - d. have in place communications that both support and enable consumers to make informed decisions about the Product, as well as a level of support that meets customer needs throughout their relationship with your organisation;



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- e. agree to provide us with information on how the Product is being distributed so that we can monitor and meet our own Duty obligations; and
- f. will ask us if you require any further information in order to fully comply with the Duty. Please contact our Consumer Duty Champion – Bronagh Duggan, on 02890597213 - if you require anything further. Our full contact details can be found on our website www.sapphirecapitalpartners.co.uk/contact

24. **Your acknowledgement of receipt and adherence to the matters set out in this letter is required, please acknowledge via email confirmation to my email address below.** We kindly request your feedback on the sales process to support the reviews carried out in accordance with the Duty. Furthermore, any information on your own reviews carried out in respect of the Target Market would be greatly appreciated.

Thank you again for your support of the Fund. If you have any questions please do not hesitate to contact me on: 02890 597213 or alternatively, at johnathan@sapphirecapitalpartners.co.uk.

Yours sincerely,

Johnathan Graham

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Manager
Sapphire Capital Partners LLP

Appendix**CONSUMER DUTY AND PRODUCT GOVERNANCE STATEMENT****Date: 28 April 2023****This document is for distributor use only****Fuel Ventures Follow-On EIS Fund****Investing in:****Shares which offer SEIS and/or EIS tax reliefs**

DUTY OUTCOME 1: TARGET MARKET IDENTIFICATION AND PRODUCT COMPLIANCE**Introduction**

Requirements for product manufacturers include the need to:

- Maintain, operate and review a process for the approval of each financial product;
- Implement a product approval process which specifies an identified target market of end clients within the relevant category of clients for each financial instrument, ensure that all relevant risks to the identified target market are assessed, and the intended distribution strategy is consistent with the identified target market;
- Ensure a product does not adversely affect any groups, including vulnerable customers;
- Carry out fair value assessments, including non-monetary benefits and costs; ensure that products provide fair value to retail customers in the target market and where an assessment shows fair value is not provided, take action to mitigate and remediate harm and prevent new harm;
- Regularly review any financial instruments it offers or markets, taking into account any event that could materially affect the potential risk to the identified target market, and whether the intended distribution strategy remains appropriate; and
- Make available to distributors all appropriate information on the financial instrument and the product approval process, including the identified target market of the financial instrument.

Distributors must have adequate arrangements to obtain information relating to the financial instrument, product approval process, and understand the characteristics and the identified target market of each financial instrument they offer or recommend.

Product Details

Name of Product	Fuel Ventures Follow-On EIS Fund.
Nature of Security	Unquoted shares in EIS qualifying companies.
Nature of Product	Discretionary managed portfolio service - alternative investment fund.
Key Documents	Information Memorandum and Key Information Document (KID).

Tenor/Length of hold	Evergreen, early-stage investments with a long-term investment horizon
Tax Advantages	(S)EIS reliefs such as, income tax relief, capital gains tax deferral (reinvestment), capital gains tax free growth and inheritance tax relief via business relief. The tax treatment depends on the individual circumstances of each client and may be subject to change in the future.
Nature of Risk	This product's risk score is 6 out of 7, which is the second-highest risk class because SEIS and EIS funds invest in early-stage and growth companies which are hard to value and where it may not be possible to sell the investment. This rates the potential losses from future performance at a high level, and poor market conditions are very likely to impact the capacity of the Fund to pay out.
Target Investor	The Product is designed for private investors who understand the risks of investing in unlisted investments, typically a UK higher-rate taxpayer, over 18 years of age, normally advised by an FCA authorised adviser or a retail client that is a high net worth or sophisticated client. They may also be a professional client or an eligible counterparty. Investors should be able to lose all funds invested.
Target Sector	Investing in promising portfolio companies in the technology marketplaces, platforms and SASS sectors.
Product Objectives	The targeted return after ten years is £5 for each £1 share (i.e. five times return) held by Investors in the Fund. Note that targeted returns are not a reliable indicator of future performance. The target return may not take into account all commissions, fees or other charges.
Distribution Strategy	Fund adviser or fund mentor, wealth manager and IFAs distribution. This Product can be invested without advice, as long as the investor is deemed appropriate under COBS 10.
Withdrawal/ liquidity	The Fund will subscribe for shares in unquoted early-stage businesses with no readily accessible secondary market. Investments in the Fund should be expected to be held for the anticipated holding period ten years but may take longer to realise. Please note that whilst uncommitted cash can be withdrawn at any time, investors will not have a right to withdraw their holdings in investee companies until the expiry of seven years after the issue of the shares.
Transferability	Once investments have been held for the expected life of the Fund the investment manager (Sapphire) may transfer the shares into the name of the individual investors.
Fees	Initial cost – 2.5% (+VAT): this fee is payable by the investee company.
	Annual Management Charge (AMC) – 2% (+VAT): An annual management charge is payable to the Investment Manager by each Investee Company equal to a total of 2% (+VAT) of the amounts invested in the Investee Company (unless otherwise agreed). It is noted that the annual charge, relating to the first five years, will be aggregated and paid in full on the date in which the Fund money is invested into each Investee Company. Fees due in respect of each year thereafter shall be paid on commencement of each successive year.

	Other ongoing costs – 0% (+VAT)
	Performance fees – 20% (+VAT): A performance fee is payable in the event of an investor receiving monies back from the Fund in excess of £1.20 for each £1 of their net subscription amount at a rate of 20% (+VAT).
Financial Services Compensation Scheme	Deposit protection of up to £85,000 per person per eligible claim for investors' money held on client account at the custodian. Please review the Fund information memorandum to understand the full details in relation to eligibility to claim under the Financial Services Compensation Scheme or contact the FSCS directly at www.fscs.org.uk .

Target Market Analysis

Date of Value Assessment Completed	April 2023
Expected Date of Next Assessment	April 2024
Value Assessment Result	The Product provides fair value to the Target Market

Requirement	Target Market Criteria	Compatible Target Market	Incompatible Target Market
Client type	Retail	✓	
	Professional	✓	
	Eligible counterparty	✓	
Sub-type if Retail	Unrestricted		✓
	Restricted/HNW/Sophisticated	✓	
	Suitability/Appropriateness Test?	✓	
Notes	Based on the Product details and target market analysis it is deduced that the Product is most suitable for professional, high net worth or sophisticated retail investors. Restricted retail investors can access the Product if they meet the suitability or appropriateness of the Product, however, it is recommended that restricted investors are advised by an IFA.		
Knowledge and experience	Low		✓
	Medium		✓
	High	✓	
	Advised	✓	
Financial situation, with a focus on ability to bear losses	No tolerance for loss in their investment		✓
	Tolerance of moderate loss		✓
	Tolerance of entire loss	✓	
	Tolerance of loss exceeding investment	N/A	N/A
Characteristics of vulnerability	Poor health		✓
	Experiencing a negative life event		✓



		Having low financial resilience		✓	
		Having low capability		✓	
Notes	This Product is not targeted at consumers with characteristics of vulnerability; however, when onboarding and/or communicating with a consumer, staff will be on the lookout for signs of vulnerability that can lead to the individual concerned making poor decisions. Sapphire will act in line with the Sapphire Vulnerable Persons Policy. Subject to the vulnerability assessment, Sapphire may reject an investor application and may recommend seeking advice from a financial adviser.				
Risk tolerance and compatibility with risk/reward profile of the product	Compatible with High Risk Investment [1]		✓		
	Compatible with Medium Risk Investment [2]			✓	
	Compatible with Low Risk Investment [3]			✓	
Client's objectives and needs	Investment Tenor	Short		✓	
		Medium		✓	
		Long	✓		
	Investment Objective	Capital protection			✓
		Appreciation	✓		
		Future income stream			✓
		Tax advantages	✓		
	Liquidity	Requires the possibility to exit investment early			✓
		Willing to hold the investment long term/until maturity	✓		
	Additional criteria	Preservation of tax relief	✓		
		Portfolio diversification	✓		
		Hedging			✓
		Ethical/green			✓
Sharia compliant				✓	
Other (please specify in notes)					
Distribution Strategy	Advised		✓		
	Non-advised		✓		
	Execution only		N/A		
	Discretionary		N/A		
Notes	The Product is only to be distributed via suitable channels such as Investment Advisers or Mentors, IFAs, intermediaries and wealth manager networks who have an expertise in high risk investments in venture capital (as described above) for investment by qualifying professional investors (as per COBS 3.5) or high net worth, sophisticated or restricted retail clients (as per COBS 4 - Annex 2, 3, 4 and 5). It is for advised investors and non-advised investors.				

1) High Risk Investment = investor willing to accept risk of losses up to or exceeding the investment

- amount
- 2) Medium Risk Investment = investor willing to accept risk of some losses provided other goals met
 - 3) Low Risk Investment = investor not willing to accept any loss of the investment amount

DUTY OUTCOME 2: PRICE AND VALUE ASSESSMENT

The returns an investor gets from an investment in a SEIS or EIS fund will be impacted by various fees, whether these fees are charged directly or indirectly.

Indirect fees are levied at the investee companies and will ultimately reduce the amount of the investment available to them to utilise and potentially impact the ongoing working capital of the respective investee companies if there are annual charges.

Direct fees are those levied at the investors themselves and will directly impact the amount of their investment that is deployed into investee companies (and therefore reduce the amount of potential SEIS and/or EIS tax reliefs). Direct fees also come in the form of performance fees which reduce the returns above a certain threshold level.

All fees, both direct and indirect, will ultimately impact the returns of the Fund. **Please review in detail the fees/charges section of the Fund information memorandum.**

In regard to a value assessment, Sapphire carried out a comparison with other SEIS and/or EIS products in the market, and it was concluded this Product was competitive in regard to average fees. Sapphire offers several non-monetary benefits, such as sector specific expertise, quality deal access, and mentoring support for some investee companies.

INFORMATION DISCLOSURE TO DISTRIBUTORS

#	Disclosure requirement	Confirm materials provided to meet the disclosure requirement
1.	Characteristics of the product	Based on the Product details and target market analysis, it is deduced that the Product is most suitable for high net worth or sophisticated retail clients and not for ordinary unadvised retail investors. It is better if restricted investors are advised by an IFA, to reduce potentially vulnerable customers accessing an unsuitable product.
2.	Understand the identified target market	The Product is designed for private investors who understand the risks of investing in unlisted investments, typically a UK higher-rate taxpayer, over 18 years of age, normally advised by an FCA authorised adviser or a retail client that is a high net worth, sophisticated or restricted investor (as per COBS 4 Annex 2, 3, 4 and 5). They may also be a professional client (as per COBS 3.5). Investors should be able to lose all funds invested. An investor should: <ul style="list-style-type: none"> ● be aged at least 18 ● need to diversify investment portfolios across asset classes ● not need income from or access to the capital invested during the anticipated holding period ● not be under any pressure to invest or secure a certain income from investing ● understand investing will expose you to capital losses ● understand that there is no guarantee that the tax-efficient status of the investment will be obtained or remain



- understand that the investment may not be able to be realised early, at market value, or at all
- understand that there is no secondary market for this investment
- understand that this is a high risk, illiquid, speculative investment and that there is the potential to lose all capital invested
- not be aware of any health issues or events which would impact their ability to make decisions for financial matters or day to day capability (see FCA guidance FG21/1)
- have a sufficient UK income tax liability to reclaim income tax relief at 30% of the amount subscribed;
- be seeking to reinvest a recently realised gain; and/or
- be seeking to shelter assets from inheritance tax.

It is recommended that all investors are advised by an IFA, to reduce vulnerable customers accessing an unsuitable product and ensure the suitability of the Product for the investor as well as ensuring the Product meets the investor's financial requirements. The Product is not suitable for clients who:

- under the age of 18
- have limited to no investment experience
- are under pressure to invest or secure a certain income from investing
- can not be exposed to capital losses
- whose lifestyle would be impacted by the loss of 100% of their investment
- seek a short to medium term investment product, or need their money back quickly (most funds can be a duration of at least ten years or more)
- whose decision-making is impacted by health issues or life events
- aren't willing to hold their investment for at least the expected life of the Product
- have a low-risk appetite
- have no UK income tax liability
- don't seek to reinvest a recently realised gain; and/or
- don't seek to shelter assets from inheritance tax.

Subject to Sapphire's approval, corporate and professional investors can invest in this product; however, the application route involves manual intervention and more documentation.

3.	Consider the needs, characteristics and objectives of any retail customers in the target market with characteristics of vulnerability	<p>The Manufacturer has assessed and passed the Product as meeting the characteristics and objectives of the Target Market, and Sapphire has taken appropriate action to avoid foreseeable harm. These actions include:</p> <ul style="list-style-type: none"> ● ensuring a robust investor onboarding process; ● ensuring that employees have the right skills, knowledge and competence to do their jobs; ● ensuring all staff members receive the necessary training required to limit harm to customers; ● ensuring and maintaining that communications support and enable consumers to make informed decisions about the Product; and ● implement a robust product approval process, ensuring products meet needs, objectives and characteristics of the target market, and does not adversely affect any groups, including vulnerable customers. <p>If a client finds themselves in a vulnerable position, Sapphire will continue to support and offer the same fair treatment to the consumer.</p>
4.	Identify the intended distribution strategy for the product	<p>The Product is intended to be distributed via Fund Adviser or Fund Mentor as well as wealth manager and IFAs distribution networks. The Product may also be distributed via FCA-qualifying HNW/Sophisticated networks.</p>
5	Product will be distributed in accordance with the needs, characteristics and objectives of the target market	<p>The onus is on the distributor to ensure they act within accordance with the needs, characteristics and objectives of the Target Market. Consumers must be able to make informed investment decisions supported by information and documentation from Sapphire and, if applicable, a financial adviser. In the event a distributor believes they do not have the necessary information required to act within their capacity, the distributor is recommended to contact Sapphire and request the missing information.</p>

Sapphire is satisfied that the materials provided to distributors meet the disclosure requirements and would like to request feedback on the sales process. Please provide the information to Johnathan Graham at johnathan@sapphirecapitalpartners.co.uk. or call 02890 597213.